

Message Text

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C O N F I D E N T I A L MUSCAT 1024

E.O. 11652: GDS
TAGS: EFIN MU
SUBJECT: OMAN'S BUDGET FOR 1976 AND GOVERNMENT FINANCES

REF: MUSCAT 551 NOTAL

1. SUMMARY: OMAN GOVERNMENT HAS ONE AGAIU RESORTED TO
SUBSTANTIAL FOREIGN BORROWING TO COVER SIZEABLE BUDGET DEFICIT.
FY-1976 BUDGET REQUIRES \$287 MILLION IN LOANS AND GRANTS
(LARGELY FROM SAUDI ARABIA) TO PAY FOR 20 PER CENT RISE IN
DEFENSE AND OTHER EXPENDITURES. THE PICTURE MAY BE BRIGHTER
NEXT YEAR: OMANGOV PLANS TO HOLD DOWN DEVELOPMENT EXPEN-
DITURES AS MUCH AS POSSIBLE AND IS IMPROVING ITS FINANCIAL
ACCOUNTING PROCEDURES. IN ORDER TO SPUR PRIVATE SECTOR IN-
VESTMENT IN MINERALS, AGRICULTURE, AND OTHER PRIORITY AREAS
AND TO COMPENSATE FOR SLOWDOWN IN PUBLIC INVESTMENT,
THE GOVERNMENT HAS ESTABLISHED A DEVELOPMENT BANK.
END SUMMARY.

2. DURING DISCUSSION WITH EMOFF, DIRECTOR GENERAL FOR FINANCE
MOHAMED REDHA MUSA INFORMED US THAT 1976 BUDGET HAS JUST RECEIVED
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FINAL APPROVAL. TOTAL REVENUES FOR FY 1976 ARE ESTIMATED AT

R.O. 605 MILLION (\$1,754,000,000), WHILE EXPENDITURES SHOULD REACH \$1,841,000,000. UNCOVERED DEFICIT FOR 1976 WILL BE R.O. 30 MILLION (\$87 MILLION), DOWN FROM R.O. 38.7 MILLION DEFICIT RECORDED IN FY 1975.

3. MUSA NOTED THAT R.O. 34 MILLION RISE IN DEVELOPMENT EXPENDITURES AND R.O. "(MILLION INCREASE IN CIVIL RECURRENT BUDGET HELPED CAUSE BUDGETARY SHORTFALL WHICH COULD NOT BE ENTIRELY MET BY PETROLEUM AND TAX REVENUES (MUSA DID NOT MENTION DEFENSE SPENDING). IN 1976, OMANGOV RECEIVED LOANS AND GRANTS OF R.O. 99 MILLION (\$267 MILLION). SUBSTANTIAL FUNDING WAS OBTAINED FROM SAUDI ARABIA, WHILE SEVERAL EXISTING LOANS WERE ROLLED OVER AND ADDITIONAL MEDIUM-TERM FINANCING WAS OBTAINED FROM EUROPEAN BANKS.

4. OMANGOV IS REASONABLY CONFIDENT THAT EXPENDITURES IN FUTURE YEARS CAN BE KEPT UNDER CONTRO. WITH HELP OF U.S. ACCOUNTING FIRM (ARTHUR ANDERSEN), OMANGOV IS PREPARING QUARTERLY BUDGET PROJECTIONS IN ORDER TO MONITOR CASH FLOW MORE CAREFULLY. NEXT YEAR'S BUDGET SHOULD BE READY IN JANUARY 1977 INSTEAD OF RECEIVING FINAL APPROVAL HALF-WAY THROUGH FISCAL YEAR, AS WAS PRACTICE IN 1976. DEFENSE EXPENDITURES ARE SLOWLY BEING BROUGHT UNDER TIGHTER SCRUTINY. ARTHUR ANDERSEN IS ALSO HELPING TO FORMULATE UNIFORM SYSTEM OF PROJECT EVALUATION. NEVERTHELESS, MUSA EXPECTS CONTINUED BUDGET DEFICITS AS PETROLEUM PRODUCTION AND REVENUES START TO DECLINE, AND OMAN WILL NEED TO BORROW FROM OTHER ARAB STATES AND INTERNATIONAL CAPITAL MARKETS FOR SEVERAL MORE YEARS.

5. ACCORDING TO MUSA, OMANGOV WILL CONTINUE ITS TIGHT REIN ON DEVELOPMENT PROJECTS. FUNDDFFCOMMITTED FOR PROJECTS SIGNED IN 1974-75 WILL BE USED UP THIS YEAR, AND FEW NEW GOVERNMENT PROJECTS WILL BE APPROVED THROUGH 1980. MUSA SAID THAT OMANGOV WILL SEEK PROJECT LOANS FROM NEIGHBORING COUNTRIES FOR SUCH PROJECTS AS RAYSUT PORT, CEMENT PLANT, ETC. HE INDICATED THAT IT WILL BE DIFFICULT TO GET APPROVAL FOR PROJECTS NOT SPECIFICALLY MENTIONED IN RECENTLY-PREPARED FIVE-YEAR PLAN.

6. TO ALLEVIATE EFFECTS OF GOVERNMENT BUDGETARY STRINGENCY, OMANGOV IS SEE-
KING TO MAKE MORE CAPITAL AVAILABLE TO PRIVATE
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SECTOR. DIRECTORATE OF FINANCE HAS ESTABLISHED OMAN DEVELOPMENT BANK WITH AN INITIAL CAPITAL OF R.O. 10 MILLION, WHICH WILL BE AUTHORIZED TO MAKE LOANS UP TO AGGREGATE LIMIT OF R.O. 40 MILLION (BANK WILL BE OWNED 40 PER CENT BY OMANGOV, 40 PER CENT BY FOREIGN CAPITAL, AND 20 PER CENT BY OMANI BUSINESSMEN). BANK WILL ISSUE LONG-TERM LOANS AT MODERATE RATES TO PRIVATE OMANI COMPANIES TO HELP FINANCE PROJECTS IN FIELDS OF INDUSTRY, PETROLEUM, MINERALS, AGRICULTURE, AND FISHERIES. OMANGOV IS ALSO

ENCOURAGING PRIVATE SECTOR PARTICIPATION BY KUWAIT AND UAW AS MUCH AS POSSIBLE. MUSA HOPED THAT THESE MEASURES WOULD ENCOURAGE GREATER DEGREE OF ENTREPRENEURIAL INVESTMENT BY OMANI BUSINESS HOUSES AND WOULD HELP COMPENSATE FOR SLOWDOWN IN GOVERNMENT SPENDING.

7. COMMENT: OMANGOV HAS STILL NOT ENTIRELY FACED UP TO NEED FOR KEEPING GOVERNMENT EXPENDITURES UNDER CONTROL, PARTICULARLY DEFENSE. EVEN THOUGH COMMERCIAL OIL PRODUCTION FROM DHOFAR IS NOT YET A SURE THING, GOVERNMENT OFFICIALS OVER-OPTIMISTICALLY EXPECT NEW SOURCES OF OIL TO COMPENSATE FOR DECLINE OF ESTABLISHED NORTHERN OIL FIELDS. THERE ARE INDICATIONS THAT NEED FOR CONTINUED EXTERNAL BORROWING OVER NEXT FEW YEARS IS BEGINNING TO MAKE FOREIGN FIRMS AND BANKS WARY ABOUT COMMITTING THEMSELVES TOO HEAVILY IN OMAN.
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